PHD RESEARCH BUREAU
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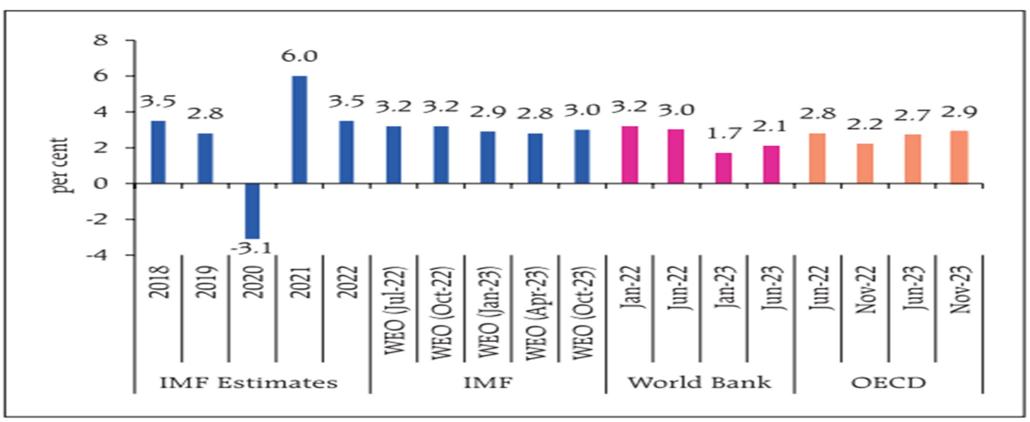
Financial Stability Report December 2023

According to the Financial Stability Report, December 2023, Global macro-financial conditions remain exposed to risks from slowing growth prospects, increasing geopolitical
hostilities and high debt levels, and tighter financial conditions. Despite a gloomy global environment, the Indian economy has strengthened on the back of strong fundamentals and a stable financial system, with sound balance sheets of financial institutions supporting the funding needs of the growing economy.

The International Monetary Fund (IMF) has projected that global growth will decline to 3.0 percent in 2023 and 2.9 percent in 2024, below the pre-pandemic (2000–19) average of 3.8 percent (Chart 1). This moderation in growth momentum is expected to be accompanied by a sharp deceleration in world trade growth, which is projected to fall from 5.1 percent in 2022 to 0.9 percent in 2023. Although it is projected to recover to 3.5 percent in 2024, it would still be below its average growth of 4.9 percent during 2000-19.

Chart-1 Global Growth Forecast for 2023

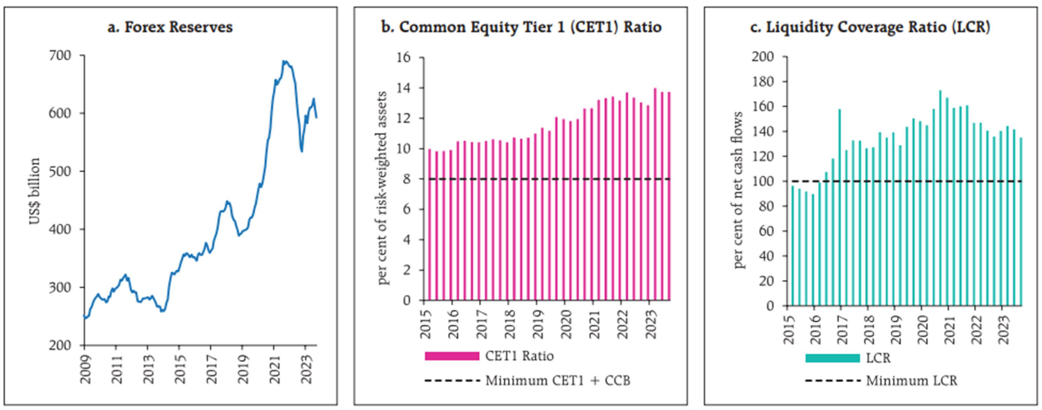


Source: PHD Research Bureau, PHD Chamber of Commerce and Industry. Data compiled from RBI.

Despite facing successive shocks and large global spillovers, India remains one of the fastest-growing major economies in the world, underpinned by sound macroeconomic fundamentals and buffers. The growth momentum remains strong on the back of robust domestic consumption, high public capital expenditure, a recent upturn in private investment, and strong exports of services.

Buffers in the form of foreign exchange reserves and capital and liquidity in the banking
system provides self-insurance against global spillovers (Chart 2 a, b, and c).

Chart-2 Forex Reserves and Banking System Buffers

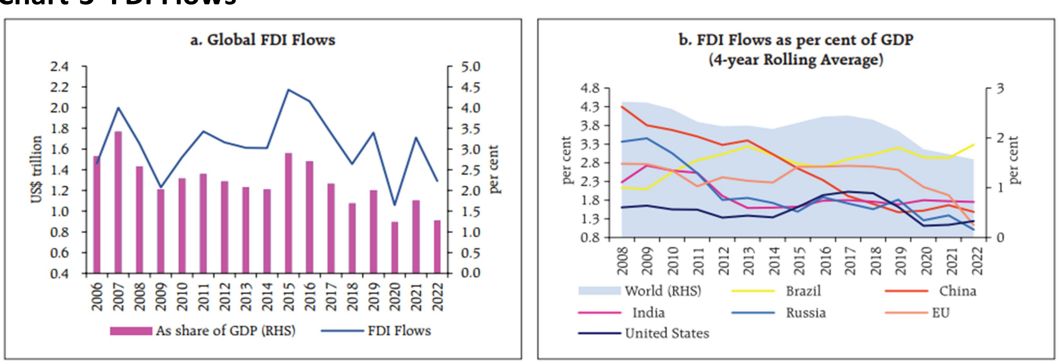


Source: PHD Research Bureau, PHD Chamber of Commerce and Industry. Data compiled from RBI.

The widening fractures in the global economic order pose macro-financial risks in different forms such as trade barriers, disruption in capital flows, ruptures in commodity markets, technological decoupling, and migration restrictions which are threatening to reverse the benefits of global integration.

Foreign direct investment (FDI) is also increasingly being determined by geopolitical alignments and inward-looking production strategies. FDI flows as a share of GDP have been moderating; in 2022, global FDI flows declined by 5 percent with a dip in cross-border merger and acquisition (M&A) flows (Chart 3).

Chart-3 FDI Flows



Source: PHD Research Bureau, PHD Chamber of Commerce and Industry. Data compiled from RBI.

The global economy is confronting multiple challenges of low growth prospects, large public debt, geo-economic fragmentation, and elevated though receding levels of inflation. Risks to the near-term global growth outlook remain tilted to the downside. The global financial system has displayed more resilience since the March 2023 banking turmoil. Still, financial stability could be tested if monetary policy remains tight for longer than anticipated and growth slows further.

Despite a challenging global backdrop, the Indian economy is exhibiting sustained momentum and resilience. The domestic financial system remains sound and is bolstered by the improving health of financial institutions. Pre-emptive regulatory measures taken recently are expected to moderate the build-up of stress emanating from rising unsecured loans and rapid growth in consumer credit. Global spillovers, rising interconnectedness in the domestic financial sector, and the increasing role of NBFCs in providing financial services remain contingent risks. However, banking capital, regulatory prudence, and strong balance sheets should ensure that the domestic banking system is well-positioned to withstand shocks and support the productive needs of the economy.

To read the complete report, please click the link below:
https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/0FSRDECB815B9437D6D428F81D45C22BBF6C62A.PDF

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Warm Regards,

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